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Recommendations of the Board of Auditors

UNDP: Report on the implementation of the recommendations of the Board of Auditors, 2004-2005*

Report of the Administrator

Summary

The United Nations Board of Auditors (BOA) concluded their 2004-2005 biennium audit of UNDP in June 2006. The 2004-2005 audit was unique for UNDP, as it was the first audit conducted after implementation of the Atlas system. The audit report should be viewed in the context of the complex global Atlas implementation. At the conclusion of the audit, BOA issued an "unqualified" audit opinion with three matters of emphasis and audit observations.

The present document provides management responses addressing the emphasis of subject matter and all the audit recommendations documented in the report of BOA on the financial report and audited financial statements of UNDP for the biennium ended 31 December 2005 (A/61/5/Add.1). The management responses provided in this report also took into account the comments of the Fifth Committee (through the report of the Advisory Committee on Administrative and Budgetary Questions – ACABQ) (A/61/350).

In response to the request of the Executive Board (decision 2006/8), this document describes the actions taken by UNDP to strengthen management and control systems – including: risk management, ethical and professional conduct, and anti-fraud and anti-corruption measures. This is followed by management responses to the top 15 key audit risks identified by UNDP, including the three matters emphasized by BOA. A separate annex (available on the web site of the Executive Board secretariat) provides detailed management responses to all the recommendations of BOA.

As directed by the Board, the Administrator and senior management of UNDP are committed to addressing the BOA audit recommendations and will continue to build on the oversight and control systems established in 2006, including the quarterly review of key audit issues with the Operations Group. In addition, the document outlines key UNDP management strategies to address the systemic and recurring audit issues raised by both internal and external audits.

*The compilation of data required to provide the Executive Board with the most current information has delayed submission of the present report.

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These include current work on an enterprise risk management system, the 'operationalization' of the management accountability framework (including the accountability framework for audit matters), the investment in the professional certification programme for project, procurement, human resources and finance staff, and the creation of a number of management strategies to address the performance of offices and the quality of national execution (NEX).

Elements of a decision

The Executive Board may wish to note the progress made by UNDP in implementing the recommendations made by BOA for the biennium ended 31 December 2005, and the specific efforts made by management to address recurring and systemic audit issues.

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Abbreviations not defined in the text

DAC	Development Assistance Committee
ICT	Information and communications technology
NGO	Non-governmental organization
OECD	Organisation for Economic Co-operation and Development
SAP	Systems, applications, products [data processing]

Introduction

1. This document provides management responses to the specific issues raised by the Executive Board in the January 2006 session (DP/2006/16). Management strategies and action plans are also included. These plans address all the audit recommendations as documented in the report of BOA on the financial report and audited financial statements of UNDP for the biennium ended 31 December 2005 (A/61/5/Add.1). The management responses provided in this report have taken into account the comments of the Fifth Committee (through the report of the ACABQ) (A/61/350). In addition, the management response took into account the relevant key recommendations of the United Nations governance and oversight review report (A/60/883/Add1) issued in June 2006. The report is organized as follows:

Part I: Status of implementation of audit recommendations. This section provides contextual and clarifying information as well as a summary of the implementation status of the audit recommendations made by BOA since the conclusion of its audit in June 2006.

Part II: Management update to specific issues raised at the first regular session 2006 of the Executive Board. This section provides an update on the management actions taken to address specific issues raised by the Executive Board in the January 2006 session.

Part III: Management responses to addressing key and recurring audit risks: This section provides management strategies adopted to address recurring and systemic audit risks in response to the BOA recommendations. It also provides specific management responses to the three matters of emphasis and the key audit risks identified. The detailed management responses to the BOA audit recommendations include: responsible divisions, current status, priority status, and target completion dates for all audit recommendations issued by BOA. These are available as a separate annex (accessible on the website of the Executive Board secretariat)

I. Status of implementation of the audit recommendations

2. BOA concluded its audit of the UNDP accounts for the biennium ended 31 Dec 2005 in June 2006. The 2004-2005 audit was unique for UNDP, since it was the first audit conducted since the implementation of the Atlas system. The audit report should be viewed in the context of the Atlas implementation, given its large scale and complexity. In the course of the audit, BOA leveraged key findings from the three different reviews conducted or coordinated by the Office of Audit and Performance Review (OAPR) in 2005, namely: the Atlas wave I review, the Atlas internal controls and post-implementation configuration review, and the ICT risk security assessment.

3. At the conclusion of the audit in June 2006, BOA issued an "unqualified" audit opinion, with a total of 115 recommendations (30 with

high priority). It also raised three matters of emphasis: national execution (NEX), bank reconciliation, and internal controls (paragraph 4). These are specifically addressed in the present document.

4. The Administrator is pleased to report that as at 7 December 2006, a total of 37 recommendations have been completed (32 per cent of all 115 recommendations). Of the 38 recommendations originally targeted for completion by the fourth quarter of 2006, 30 have been implemented (79 per cent). The remaining eight recommendations are taking longer than expected and will be accelerated in the next quarter where possible (see table 1, below). While many of the recommendations pertain to UNDP, a number of the cross-agency issues raised by the Executive Board require close collaboration and/or harmonization with other United Nations organizations. Examples include inter-agency accounts reconciliations, inter-agency coordination at the host country, establishment of common United Nations Houses and joint offices, as well as the post-Indian Ocean tsunami relief efforts. Therefore, the resolution is not the responsibility of UNDP alone, but of all participating organizations.

Table 1. Implementation status by target completion dates

	Priority				
Description[1]	**High**	**Medium**	**Low**	Total	Remarks
(a) Total recommendations issued by BOA	30	82	3	115	
(b) Total implemented as at 7 Dec 2006	3	33	1	37	Include 7 originally due in 1st quarter, 2007
(c) Percentage implemented = (b)/(a)	10 per cent	40 per cent	33 per cent	32 per cent	
(d) Total targeted for completion in fourth quarter, 2006	4	33	1	38	
(e) Total due and implemented in fourth quarter, 2006	2	27	1	30	
(f) Percentage implemented (those implemented over those targeted for completion in 4th quarter, 2006 = (e)/(d)	50 per cent	82 per cent	100 per cent	79 per cent	
(g) Total targeted for completion in first and second quarters, 2007	6	26	0	32	
(h) Total targeted for completion in third and fourth quarters, 2007	13	17	2	31	
(i) Total target for completion by first quarter 2008	0	1	0	1	

[1] *Note*: These relate to recommendations that require continuous monitoring and improvement. Examples include continuous efforts in Atlas user training, support to Resident Coordinator, trust funds in deficits, payroll to general ledger posting, etc.

(j) Recommendations relating to continuous improvements (see note 1 below)	7	5	0	12	

II. Management update on key issues raised at the first regular session 2006 of the Executive Board

5. Pursuant to decision 2006/8, paragraphs 3 and 4, UNDP is pleased to report, below, on progress made in several areas specifically requested by the Executive Board. The intent of the request was to strengthen management and control systems.

6. *Mainstreaming risk management in UNDP.* Since July 2006, the UNDP Enterprise Risk Management (ERM) Committee, chaired by the Associate Administrator, has been providing strategic direction and guidance to mainstream risk management in UNDP. A dedicated project office has been established to work closely with the regional bureaux and country offices to plan and prepare for the pilot roll-out of ERM in UNDP by early 2007. Leveraging the results of the first-ever UNDP corporate risk assessment, conducted in January 2006 (see figure 1), the ERM Committee has approved the four key risk areas of (a) procurement management, (b) financial resource management, (c) fraud reporting and (d) succession planning and talent management for pilot implementation by early 2007. Key risk indicators are being identified and these will be integrated with the results based management (RBM) reporting policy and process. The end goal is to integrate a risk management culture into UNDP core operations so as to manage responsibilities to stakeholders proactively.

7. *Reinforcing ethical and professional conduct amongst managers and staff in UNDP.* The legal accountability framework for addressing non-compliance with ethical and professional conduct is presently being finalized by the Office of Legal and Procurement Services. This is due for official release in early 2007. In addition, all staff will be required to undertake a comprehensive computer-based training programme on ethics, to be rolled out in the first quarter of 2007.

8. *Implementing anti-fraud and anti-corruption measures.* Accountability will be further clarified throughout the organization with the formalization of the management accountability framework in 2007. Financial disclosure policy for staff at the D1 level and above, including staff who are engaged in procurement functions, will be administered by an ethics officer in the Office of Human Resources. 'Whistle-blower' protection policies will be affirmed and formalized in the upcoming release of the revised document on the legal accountability framework for addressing non-compliance with ethical and professional conduct.

9. The above and other related management initiatives in the pipeline are part of management accountability framework, intended to strengthen accountability and manage organizational risk in UNDP. While the notion

of management accountability is not new to UNDP, the focus has been largely on compliance (and associated sanctions for failure to comply). UNDP is working on translating the principles of accountability, responsibility and transparency into practical processes that are meaningful to managers in the field and at headquarters. These changes will provide greater contextual meaning to the interrelated initiatives currently being introduced, and will highlight compliance, ethics and results.

III. Management responses to key and recurring audit risks

10. Pursuant to decision 2006/13, paragraph 11, of the Executive Board, UNDP has carefully reviewed the BOA recommendations. UNDP has put in place a number of measures, identified below, aimed at addressing some of the key underlying issues embedded in the audit observations raised by both internal and external auditors. This will be followed by management responses to the key audit risks identified.

11. *Addressing staff capacity issues through staff professionalization programme and subregional shared service centres as alternative option.* The varying level of internal staff capacity continues to be a common issue in internal and external audits alike. It is recognized that the following factors have given rise to highly complex business processes requiring a higher level of staff competency and Atlas knowledge: an exponential growth in delivery volume; a surge in non-core funding; the move to results-based management; the increasing role of UNDP in United Nations coordination and in crisis countries. There is a need to invest in more sustainable ways of increasing internal staff capacity to deal with the higher expectations of our staff, such as the planned implementation of the International Public Accounting Standards (IPSAS) in UNDP by 2008. The professional certification programme for our project, procurement, finance and human resources staff is one key initiative that will continue to be encouraged at the regional and country office levels as part of our commitment to staff development. In addition to staff professionalization programmes, the Bureau of Management (BOM) is exploring more sustainable, cost effective approaches to building internal capacity. The practice of subregional shared services centres (as implemented at the World Bank) represents a viable initiative, which will be fine-tuned to meet the unique requirements of UNDP.

12. *Strengthening accountability for addressing audit risks along reporting lines.* UNDP is committed to addressing the BOA recommendations. UNDP recently streamlined its governance mechanism for audit follow-up to emphasize the accountability of heads of office (at headquarters or in country offices) in the following areas: responding to audit recommendations; taking remedial actions; and accountability for results. In tangible terms, it specifically requires that all audit action plans submitted by the resident representative and/or head of the office being audited are to be formally endorsed by the respective Bureau Director. It also requires that all "deficient" rated offices will be monitored with progress tracked regularly by the respective Bureau Director using the

'Comptroller's watch list'. In addition, it requires that all audit reports be finalized within four months from the completion of the audit, and that quarterly reviews of audit issues be established within the regional bureaux.

13. *Attaching specific management priorities to address the top 15 audit risks.* Based on a review of the audit issues raised by both internal and external auditors, UNDP has identified 15 top audit risks requiring close management attention (see table 2, below). The first eight items cover the specific concerns raised by BOA for the 2004-2005 biennium (NEX, bank reconciliation and internal controls), and five other audit risks are identified (asset management, Atlas related issues, transparent and competitive procurement, cost recovery and project design, and monitoring and evaluation). Those areas require closer attention in line with management efforts to promote transparency and management accountability in UNDP. The second group of audit risks comprises hybrid issues that require regular management oversights and monitoring. There are seven of these, including: UNOPS project delivery report reconciliation; agency accounts reconciliation issues; inactive trust funds and trust funds in deficit; recovery from common account services, staff advances, transparency in staff recruitment processes, and the SAP migration to Atlas in Brazil. While the BOA recommendations will continue to be tracked and progress reviewed regularly, special management focus will be given to these top 15 audit risks.

Table 2. Top 15 management priorities to address key audit risks in UNDP

① NEX	② Bank Reconciliations	③ Internal Controls	⑨ UNOPS PDR	⑩ Agency accounts
④ Asset accounting	⑤ Atlas enhancement	⑥ Procurement transparency	⑪ Trust Funds	⑫ Common Services
⑦ Cost Recovery	⑧ Project design, Monitoring & evaluation		⑬ HR recruitment	⑭ Salary advance
			⑮ SAP Brazil	

14. In the area of *NEX projects*, the challenge has been, and will continue to be, finding the balance between managing fiduciary risks and achieving the objectives of national capacity building. BOA has raised concerns about the financial impact of qualified NEX audits (paragraph 4a). While the total financial qualification of $33.5 million represented only 2.5 per cent of the NGO/NEX projects expenditure

($1.6 billion) across 1,717 NEX projects audited in 2004, UNDP appreciates the BOA recommendations. Specific management attention is being given to the handful of country offices that contributed to a significant proportion of the financial quantification.

15. While the implementation of harmonized programming arrangements and the harmonized cash transfer modality is aligned with current OECD/DAC practices, the implementation is still in progress in some country offices. In many cases, the country offices have no direct control over the implementation of audit plans by national implementing partners. The results of the NEX audit clearly reflected the capacity of supreme audit institutions and private audit firms in the countries where UNDP operates. Both factors are a reality of operating in those countries, and UNDP will explore avenues to enhance capacity in OAPR and country offices to provide adequate training. Further assistance in the selection of auditors and quality control of audit reports and implementation plans will also be provided. Since 2005 was the first year of implementation of the new NEX audit methodology, the level of comprehension varied amongst both country offices and NEX auditors. This is being addressed through the BOM regional training. Concurrently, OAPR is exploring cost-effective means of providing training and communicating concerns to NEX auditors. In addition, UNDP is moving to more risk-based NEX audits, and is the strengthening its NEX audit follow-up mechanism. As part of the accountability framework for follow-up to audit recommendations, the directors of the regional bureaux will focus especially on the few country offices that are given qualified NEX audit opinions. A joint NEX task force is being formalized, comprising the Director of Finance, the Director of OAPR, regional bureaux and the United Nations Development Group Office (UNDGO). It will conduct a comprehensive review of related NEX policies, practices and fiduciary risk management and make specific recommendations to the Associate Administrator.

16. In the area of *bank reconciliation*, UNDP would like to clarify that while monthly bank reconciliation was not performed in 2004-2005 (paragraph 4b), it was completed in May 2006, before the close of the audit. Issues related to both system and staff constraints. The hiring of external accountants in South Africa and the use of the Atlas financial dashboard and Atlas bank reconciliation reports have made it possible for the bank reconciliations for all 615 bank accounts to be made to the General Ledger in May 2006.

17. Towards the end of 2005 a major effort was made to address system issues, simplifying the bank reconciliation process and providing additional training and support. This was largely successful, and the most country offices performed monthly bank reconciliations in 2006. Key measures undertaken include: the roll-out of a staff professionalization and certification programme; integrated training at the regional level; the planned upgrade to a later version of Atlas; and the exploration of a more cost-effective means of addressing internal staff capacity issues in certain country offices. This may include the establishment of sub-regional shared service centres.

18. In the area of *strengthening internal controls*, UNDP has established a number of management interventions that were already being implemented or in progress to address issues raised by BOA (paragraph 4c). These included: (a) the ongoing reinforcement of International Finance Corporation (ICF) guidelines at regional and management training workshops; (b) the continuous enhancement of our Atlas user's security management system (implemented in November 2005) to ensure non-conflicting security profiles when processing user accounts; (c) the implementation of audit trail features in Atlas from July 2006 to track changes to vendor records, bank accounts and foreign exchange documents; (d) the implementation of a security question feature for forgotten password requests in October 2006; and (e) the planned release of the revised ICF guidelines to reiterate managerial accountability and provide more specific guidance on the required segregation of duties for asset management, requisition in e-procurement, and the management of external access to Atlas.

19. In the area of *asset (or non expendable equipment) accounting*, UNDP has noted the concerns of the Fifth Committee (through the ACABQ report, A/61/350) and notes that while BOA has acknowledged significant efforts and improvements made by UNDP in recording, updating and reporting non-expendable equipment in UNDP offices since 2005, UNDP has decided to give added emphasis in this area. This is in anticipation of the move towards IPSAS in 2008, when depreciation will be reported for non-expendable equipment. UNDP will continue to provide guidance to country offices on the controls of assets, the identification of obsolete assets and their disposal, the maintenance of evidence for annual asset counts, and the tagging of new assets. The Office of Audit Services will continue to monitor the timely certification of assets by country offices.

20. In the area of *Atlas-related enhancements, including SAP migration to Atlas*, UNDP is working on the enhancements to Atlas recommended by BOA. These include the use of aging reports to track government advances and unapplied deposits (paragraphs 94 and 95) and simplifying the procedures for reconciling sub-ledgers to General Ledger at the country office level (paragraph 28). Plans are being finalized for the migration of Brazil SAP data to Atlas (paragraph 125). With the planned implementation of IPSAS, UNDP is working with other United Nations organizations to streamline the relevant financial regulations and rules.

21. In the area of *trust fund management*, UNDP is working with donor countries to reduce the number of inactive trust funds and those in deficit, as recommended by BOA (paragraph 74). The number of trust funds in deficit has been reduced steadily from a high of 82 (totalling $37.7 million) to 72 as at September 2006, with a $29.9 million deficit. To better manage the risks associated with trust funds, UNDP is in the process of formalizing requirements to ensure that if disbursements are made prior to receipt of funds, the resident representative will obtain the approval of the Regional Bureau Director and the Comptroller/Director of BOM.

22. In the area of *inter-organization accounts reconciliations, including UNOPS*, UNDP is working closely with other United Nations organizations to improve inter-agency fund reconciliation (paragraph 43). Special management attention is being given to accounts reconciliation with UNOPS. By the end of November 2006, the inter-fund variance with UNOPS had been reduced from the original $59.1 million to $10.07 million. Further analysis and reconciliation is in process. UNDP will also streamline the procedures and monitor the monthly bank reconciliation at country offices (paragraph 26), and is improving the Atlas accounts classification and monitoring of the reconciliation of inter-fund accounts. Differences will be rectified at the earliest opportunity (paragraph 43).

23. In the area of *cost recovery and common services accounts management*, UNDP is taking steps to review current cost recovery policies to address the concerns of partner organizations. These include the need to improve the quality of signed agreements concluded by UNDP country offices. Related to cost recovery is the management of non-payment by, or non-collection from partner organizations for common services provided.

24. In the area of *procurement transparency and contract management*, a number of measures have been initiated to improve transparency in the procurement process. These include the establishment of procurement protest procedures in UNDP and the inclusion of procurement ethics guidelines in the procurement and contract user's guide. Other measures include the publishing of all procurement notices on the UNDP and IAPSO portal where contract amounts exceed $100,000; the planned implementation of a financial disclosure policy for staff at the D1 level and above, including those involved in procurement functions; the formalization of whistle-blower protection policies in the legal accountability framework for addressing non compliance with ethical and professional conduct; and the formalization of procurement benchmarks especially for crisis countries (paragraph 71). From a system perspective, UNDP will implement a strategic sourcing module within Atlas in 2007 to facilitate more transparent vendor evaluation and selection processes (paragraph 371). In addition, UNDP will progressively introduce mandatory procurement plans by 2007 (paragraph 374).

25. In the area of *project design, monitoring and evaluation*, UNDP is taking steps to address common concerns raised by BOA and OAPR to ensure stronger linkages and management reporting between reported expenditures and the project implementation status (paragraph 190). UNDP provided specific guidance in its recent revision to the results management guide. Training will be provided to country offices in utilizing the quarterly review report in Atlas to correlate financial and project progress information.

26. In the area of *transparency in human resources recruitment and salary advances*, a number of measures have been initiated. These included the establishment of prescriptive content for recruitment policies and guidelines, to be formalized by early 2007. Guidelines on salary

advances will be reinforced. The Office of Human Resources is also in the process of updating the policies on leave practices and management, cognizant of the initiatives related to its work/life programme (paragraph 449). In anticipation of the planned migration to Atlas of the leave records management in the 3rd quarter of 2007, workshops have been planned for International professionals in 2007 to standardize leave administration practices. It is envisaged that this will also facilitate the absence management and accuracy of the leave balances disclosed in the financial statements of UNDP in advance of the move to IPSAS (paragraph 85).

IV. Conclusion

27. UNDP welcomes the comprehensive report of BOA and accepts all its recommendations. Notwithstanding the associated fiduciary risks, UNDP continues to recognize the importance of building national capacity through NEX, and will therefore continue to manage the corresponding risks through the implementation of the harmonized cash transfer modality and more effective audit processes for NEX. As previously indicated, the 2004-2005 audit was unique for UNDP. The scope of the Atlas implementation was large and complex, encompassing not only the implementation of the Atlas system but also a significant change management initiative. The organization acknowledges that a longer-term strategy is required to address the complex issues involved. UNDP has embarked on the professionalization of many functions in the organization through certification programmes. Other strategies to improve organization performance include enhancing the culture of risk management and accountability through the management accountability framework, enterprise risk management initiatives, fraud and ethics policies, country office capacity improvement, staff certification, and subregional shared service centres.